GREYCOURT

For the Month Ending September 30, 2012

Capital Markets Flash Report

US Equity Markets	Sep-12	YTD
Large Stocks:		
S&P 500	2.58%	16.45%
Russell 3000	2.63%	16.12%
Russell 1000	2.57%	16.31%
Russell 1000 Growth	1.96%	16.80%
Russell 1000 Value	3.17%	15.74%
Small Stocks:		
Russell 2500	2.61%	14.33%
Russell 2000	3.28%	14.23%
Russell 2000 Growth	3.00%	14.08%
Russell 2000 Value	3.56%	14.37%
International Equity Markets**		
MSCI EAFE	2.99%	10.59%
MSCI EAFE Growth	2.61%	10.86%
MSCI EAFE Value	3.37%	10.23%
MSCI Europe	2.98%	12.02%
MSCI Japan	2.40%	2.43%
MSCI Emerging Markets	6.05%	12.33%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	-0.50%	5.36%
Distressed	0.77%	3.94%
Equity Hedge	0.73%	3.35%
Equity Market Neutral	-0.23%	-5.33%
Event Driven	0.82%	5.06%
Macro	-0.47%	-0.84%
Relative Value Arbitrage	0.35%	2.72%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	-0.11%	3.73%
Treasury Inflation-Protected Securities (2)	0.54%	6.26%
Tax-Exempt Bonds (3)	0.64%	5.18%
Corporate Bonds (4)	0.83%	8.21%
High-Yield Bonds (5)	1.12%	10.93%
Real Asset Markets		
DJ UBS Commodity Index Total Return	1.71%	5.63%
FTSE NAREIT Equity Index	-1.23%	16.09%

Overview

The final estimate of 2nd quarter US GDP growth came in at 1.3%, revised downward from the previous estimate of 1.7%. Earlier this month, the Federal Reserve announced that it would engage in an open-ended purchase program of MBS securities ($40 billion per month) in response to persistent unemployment and anemic growth. The anticipation of "QE3" drove equity markets higher, adding to gains from August. Post-announcement, however, markets have generally lacked direction. Speculation of stimulus out of China coupled with new fiscal plans in Spain and France renewed buying interest to close out the month.

US Equity

US large caps added another 2.6% this month to bring their year-to-date total to an impressive 16.5%. Small caps gained 3.3% in September but still lag large caps by over 200 basis points for the year. Energy and materials stocks have rebounded recently relative to defensive sectors. Year-to-date, healthcare, financial, technology and consumer discretionary sectors have gains of 20% or higher.

International Equity

International equities got a big boost early in September as Mario Draghi announced the ECB's bond buying program, conditionally backstopping troubled sovereign debtors, like Spain. The Euro also rallied on this news as the negative effect of monetary easing was more than offset by the positive stabilizing effect for the currency. All told the Euro rose 2.2% versus the US dollar and MSCI EAFE added 3%. Developed international equities have underperformed US equities by 600 basis points so far this year. Much of this underperformance has been driven by the Nikkei, which is barely in the black year-to-date.

Emerging market equities were the strongest performers this month (up 6%) and were led by India's SENSEX Index which rose nearly 15%! China outpaced the broader index by a bit while Brazil lagged for the month and is still in the red for 2012.

Hedge Funds

Global macro strategies, on average, continue to struggle in this environment where interest rates and currencies are frequently jolted by global central banks. As markets rallied higher this month, directional strategies as well as distressed plays benefitted. Non-directional strategies were generally either flat to slightly negative as low quality, cyclical equities and credits generated the highest gains. M&A activity was light this past month but we would expect the trend in inorganic growth to pick back up now that summer is squarely behind us.

Fixed Income

High-quality bonds were mostly flat this month. Intermediate Treasuries actually lost some ground as yields backed up. The 10-year Treasury bond is now trading just north of 1.6%. The mid-month QE3 announcement ratcheted up inflation expectations as indicated by the relative outperformance of TIPS versus nominal Treasuries. TIPS have now doubled the return of nominal Treasuries in 2012. High yield bonds rallied along with equity markets, adding 1%. Default rates/expectations for high yield bonds have edged slightly higher in recent months and spreads have compressed further but investors are still pretty bullish on this sector.

Real Assets

It was a relatively quiet month for commodities but industrial metals made substantial moves. Copper was up 9% while aluminum rose 11% despite relatively weak economic data. Gold is on the rise again in response to the worldwide growth of money supplies. In August, gold added 5% and year-to-date it is up over 13%. REITs extended their recent slide with a -1.2% return this month. Despite the massive, almost uninterrupted run in REITs from their 2009 lows, yields in this space should continue to attract investors as long as the Fed holds firm on its low rate commitment.

(1) Fidelity Spartan Intermediate Treasury Bond Index is used as a proxy for intermediate US Treasury bond funds. (2) Vanguard Inflation-Protected Securities Fund is used as a proxy for US Treasury Inflation Protected Securities funds. (3) Vanguard Intermediate-Term Tax-Exempt Fund is used as a proxy for tax-exempt bond funds. (4) Vanguard Intermediate-Term Investment Grade Bond Fund (Admiral shares) is used as a proxy for intermediate corporate bond funds. (5) Vanguard High-Yield Corporate Fund is used as a proxy for high-yield corporate bond funds.

*Data Source: Bloomberg ** The MSCI returns are gross returns calculated in US Dollars. *** Hedge Fund Index returns are reported using Simple Price Appreciation and are only available on a one day lag. For complete Index Descriptions, please go to http://www.greycourt.com/indices.html